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SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS

"Paying Dividends: How the President's Tax Plan Will

Benefit Individual Investors and Strengthen the Capital Markets"

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The September 11th terrorist attacks, the end of the telecom and Internet bubbles, the corporate accounting scandals, and now the uncertainties accompanying war have left Americans feeling uncertain about their economic future. Business investment has been flat or down for two years now. Only consumer spending has kept the economy afloat, and now there are signs that consumer confidence is down to 1992 levels.

President Bush's plan to eliminate the dividend tax is a sound, common-sense approach to growing this economy. Cutting taxes and encouraging consumer spending and investment is the way to go. We want to create jobs and spur growth. That will only happen by letting American investors keep more of their own money and giving them incentives to invest it in this economy.

For millions of individual Americans, encouraging investment means encouraging the purchase of stock, which has the best long-term return of any investment. Half of all American households, more than 84 million individual investors, already own stock directly or through mutual funds. Today, millions Americans of all income levels receive dividends from stock; in fact, 45 percent of all dividend recipients make under $50,000 per year. Three-fourths make less than $100,000 per year. The problem is that America has the second highest dividend tax rates among the 26 most developed nations in the world, second only to Japan. So it only stands to reason that if we need more corporate investment, we need to reduce the tax rate on the dividends which we receive from corporate stock. Those dividends are already taxed when the corporation earns income; it is fundamentally unfair for us to pay more taxes on that income.

Another reason we need to end double taxation is to help our seniors to live more independent lives. More than half of all dividend income goes to America's seniors, many of whom rely on these checks as a steady source of retirement income. More than 9 million seniors would receive an average $991 in tax relief in 2003 if they did not have to pay income tax on those dividends.

Maybe there was a day when ending double taxation would have helped a small handful of rich, privileged Americans. But with 84 *million* individual investors owning stock, those days are over, and it's time to bring economic thinking into the 21st Century.

Our witnesses today will discuss the increases in corporate investment, the hundreds of thousands of new jobs, and the improvement in the quality of life for seniors and all individual investors that will result from passing President Bush's proposal to end the double taxation of dividends.

But there is yet another reason for ending double taxation of corporate dividends. On December 12, 2001, I co-chaired the first Congressional hearing examining corporate fraud and mismanagement at Enron. Investigations by law enforcement and by this and other Congressional committees found that senior Enron management intentionally twisted its corporate finances to hide billions in debt from investors. A massive and detailed report released last month by the bipartisan Joint Committee on Taxation shines a special light on Enron management's sordid actions. Part of the report lays out how Enron raised over $800 million through hybrid financial instruments, called "tiered preferred securities," which were specifically designed to be treated as debt for income tax purposes and as equity on its books, so Enron could deduct corporate interest payments on its tax returns without revealing its debt service on consolidated financial returns. I have provided copies of this section of the report to Members and witnesses, and I invite your attention to the last two pages, in which the Joint Committee stated four recommendations for dealing with tiered preferred securities. The very last recommendation states, and I quote, "Reduce or eliminate the disparate taxation of interest and dividends (for both issuers and holders of financial instruments) that creates the market for hybrid financial instruments. By providing more equivalence in the tax consequences of debt and equity, this approach would eliminate tax considerations from the process by which corporate taxpayers decide to obtain financing." End quote.

Now, certainly the most important factor in Enron's demise was plain old greed. But the lesson from this bipartisan report, hailed by Members of both parties in both houses, is clear: If we don't want any more Enrons gaming the system to line their pockets, one step we can take is to end the double taxation of dividends. Ending double taxation is not a panacea for the stock market's ills, but it would add to this Committee's record as the home of sound corporate governance on Capitol Hill.

Numerous Presidents as far back as Franklin Roosevelt have proposed ending the double taxation of dividends, but the proposal always seems to get caught up in outdated, tired, class warfare arguments. For the sake of our economy, our seniors, our financial markets, and our investors, Congress should support President Bush's plan to end the double taxation of dividends.